Employment Security Department
WASHINGTON STATE

# Unemployment insurance taxes

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***Tax rates recalculated annually, based on formula in state law***

***Employers with the most benefit claims pay higher rates***

***When benefit payouts far exceed taxes collected, social-cost charge helps keep the trust fund stable***

## Background

Employers in the state of Washington pay for unemployment benefits through unemployment taxes; workers do not pay unemployment taxes. (Note: Most government agencies, public schools, tribes and some nonprofits pay dollar-for-dollar for benefits paid to former employees, rather than paying a tax.)

Unemployment tax rates are calculated each year using a mathematical formula established in state law. The Governor and the Employment Security Department have no independent authority to adjust the rates.

## State unemployment tax has two components

Here in Washington, the state unemployment tax has two components:

1. An **experience-rated tax**, which is based on an average of an employer's claim history over the past four fiscal years. The four-year rolling average cushions the effect of one bad year for an employer.

   Just as drivers with a history of at-risk behavior pay higher automobile insurance premiums, employers with a history of more benefit claims generally will pay a higher unemployment tax rate.

   There are 40 experience-rate classes in Washington. Employers with the most favorable experience are assigned the lowest rate, and those with the least favorable experience are assigned the highest rate. Thus, an employer's benefit-claim history determines its future rate class. Employers that had no former employees collecting benefits in the previous four years will be in rate-class one and will owe no experience-rate tax.

2. A **social-cost tax** is paid by nearly all employers to cover the shared costs of the insurance system. For example, it recovers costs from the previous year that can't be attributed to a specific employer (e.g., benefits paid to workers whose company went out of business).

   During a deep recession, when benefit payouts far exceed the taxes collected, the social-cost tax also increases somewhat to slow the decline of the benefit trust fund, so employers aren't hit by sharper, more sudden tax increases in the future to protect the solvency of the fund.

   Since the experience-rated taxes are averaged over four years, they don't replenish the fund fast enough to maintain an adequate level of stability during a recession, so the social-cost tax steps in to help.

The experience rate and the social-cost rate are added together to determine an employer's **total tax rate**.

## Benefit trust fund

The taxes paid by employers go into the state's benefit trust fund, which is used to pay unemployment benefits. The amount of money in the trust fund at the end of each year is factored into the calculation of tax rates for the next year.

The Washington State Legislature has created a tax system that attempts to maintain enough money in the trust fund to pay for at least 12 months of unemployment benefits during a severe recession. Each year, the social-cost tax rate is adjusted based partly on the size of the trust fund; the formula for calculating the social-cost tax is written into state law.

***Healthy benefits fund made tax cuts possible***

In 2012, Employment Security paid about $2.5 billion in unemployment benefits, nearly 45 percent from federal funds and the rest (about $1.3 billion) from the state trust fund. In the same time period, the department expects to collect about $1.3 billion in unemployment taxes. At the end of November 2012, the trust fund had $2.8 billion (14 months of benefits).

## 2013 tax rates

***Tax rates unchanged from 2012 to 2013***

Thanks to tax cuts adopted by the governor and state legislature in 2011, unemployment tax rates in all 40 rate classes remain unchanged from 2012, ranging from 0.14 to 5.82 percent (not counting delinquency taxes). Three-fourths of employers will move into a lower rate class or stay the same as 2012.

***75% of employers will move into lower rate classes or remain the same***

*Highlights*

- 14 percent of Washington employers will pay lower tax rates in 2013, 61 percent remain in the same rate class, and 25 percent will move into a higher rate class.
- More than one-third of all taxable employers are in rate-class 1. Ninety percent of employers in rate-class 1 are small businesses with five or fewer employees.
- After plunging by 18.5 percent in 2012, the average tax rate will rise from 2.02 percent in 2012 to an estimated 2.19 percent in 2013.
- The experience-rated portion of the 2013 unemployment tax (paid by rate-classes 2 and higher) will be based on benefit payouts from July 2008 through June 2012 – encompassing the worst years of the recession. Beginning in 2014, recession years will be gradually dropped and post-recession years added to the calculation, which will cause the average tax rate to decline.
- Unemployment tax collections will grow from about $1.3 billion in 2012 to $1.4 billion in 2013 – largely due to business growth as the economy recovers. Even so, Employment Security will collect about $58 million less unemployment tax than if the 2011 tax cut hadn't passed.

Employers will pay unemployment taxes on the first $39,800 of each employee's earnings in 2013. For an employee earning $39,800 or more, the total tax for the year will range from $56 (employers in rate-class 1) to $2,316 (rate-class 40). On average, the total amount of tax per employee will rise by $37 in 2013, to $499 per year.

**Contacts**

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